



What is a Higher Lending Charge and will you have to pay it?

If the amount you are borrowing is more than 75% of the purchase price or valuation, whichever is the lower, a higher lending charge will be charged. The one-off sum is usually added to the loan, although it may be paid up front if you prefer.

Part of this money is used by the society to obtain mortgage indemnity insurance, which acts as extra security for our sole benefit. This insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe.

You will remain liable to pay all sums owing including arrears, interest and our legal fees. If a claim is paid to us under this insurance, the insurers generally have the right to recover this amount from you.

The majority of lenders including us only charge it to borrowers where the mortgage is over 90% of the value of the property (LTV of 90%). However, different lenders have different policies, with some lenders not charging at all, even on 100% loans, and others charging it on any advances over 70% LTV. Also, some lenders who would normally charge it can have special mortgage deals where they don't. Please ask us for details if you will have to pay the Higher Lending Charge.

Most lenders calculate a Higher Lending Charge by referencing it to both the actual LTV and the amount they are lending in excess of 75% of the property value. For example, a lender may make no charge on a 90% loan but if you borrow 90.1% you will be charged on 15.1% of the property value (90.1% minus 75% = 15.1%). Thus a small additional amount of borrowing over 90% can become very expensive.

For example, a 100% mortgage from a lender who charge a Higher Lending Charge will typically include a charge cost of 3% of the mortgage amount, i.e. £3,000 on a £100,000 mortgage. Similarly, the typical charge on a 95% mortgage, is about 1.5% of the loan value. Some of the most competitive interest rates on 100% mortgages are usually from lenders who don't charge. In certain cases, the Society will pay the premium on your behalf for loans up to 100% of the property value or purchase price, whichever is lower.



Illustrations on our site will always show you if a Higher Lending Charge is to be added and if so how much it will be.

However, if the surveyor values your property at less than the asking price, watch out for one potential trap. The lender looks at the purchase price and the valuation and uses whichever figure is the lowest to calculate a Higher Lending Charge payable. If the valuation comes out at less than the purchase price (or your estimate of value if it is a remortgage), a small reduction in value (as determined by the surveyor) may mean that your mortgage is pushed over the threshold at which a Higher Lending Charge is made. If this happens to you, try to renegotiate the purchase price down to the valuation. If you can't do this, but still want to proceed with the purchase, you could consider cutting your borrowing to keep it below the Higher Lending Charge threshold (if you can afford to increase the deposit). Alternatively you may want to search our site for another mortgage that will allow you to avoid a Higher Lending Charge.

What is subrogation?

Subrogation means that the insurer can reclaim from you any money it has paid to your lender under an indemnity insurance claim. Insurers always have the right to recover money they pay out under a claim where the loss has been caused by a "third party". In the case of indemnity insurance, you, as the borrower, are the "third party" whose default led to your lender making the claim.

Either your lender or its insurer can take legal action against you to recover the shortfall if you do not repay it voluntarily, although any action would be taken in the name of the lender. In most cases, therefore, it is your lender who will contact you to recover the shortfall on behalf of itself and its insurer. This does not mean that the lender is claiming the debt twice; any money paid by the insurer which is collected from you will be passed back to the insurer. In some cases, however, the insurer may contact you direct.

The fact that your lender has indemnity insurance **does not** mean that you are less likely to be pursued for the shortfall than if no indemnity insurance arrangements are in place. In both cases, your promise to repay all of the money you owe applies. Lenders (and insurers) have five years in which to seek recovery from you of all the money that you owe.

This information is intended as a general guide.

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Your home may be repossessed if you do not keep up repayments on your mortgage

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